MARKETING OF AGRICULTURAL PRODUCTS[1]

I. *The Marketing Problem*

Public interest in marketing.—No agricultural problem is being discussed more widely today than marketing. True, much of the discussion sheds more heat than light on the problem. It seems to be the open season for middlemen. Perhaps the North Dakota farmer voiced the popular feeling when he recently said, "Damn these middlemen! I wish I was one!"

A prominent granger in a northern state declares the present middleman system is "inefficient, bunglesome, wasteful and costly."

A successful middleman replies, "The present system of farming is inefficient, bunglesome, wasteful, and costly." Continuing his criticism of the farmer, he points out that a very ordinary farmer now raises 54 bushels of corn per acre, but the average for all American farmers is only 27 bushels per acre, or 50 per cent efficiency; that a good farmer grows 28 bushels of wheat per acre, but the American farmer on the average is getting but 14 bushels; that the scientific and up-to-date cotton farmer is making 500 pounds of cotton per acre, but the average cotton farmer in the United States is getting only 180 pounds to the acre, or 36 per cent efficiency. The middleman continues his criticism by saying that only a small per cent of the crop is No. 1 corn or No. 1 wheat or good middling cotton. In short, the average farmer is not efficient as to either quality or quantity of product. And further, says the middleman to his critics, the farmer is needlessly reducing his crop yield by growing harmful weeds, the yield being reduced 10 per cent in corn, 9 per cent in tame hay, 8 per cent in potatoes, 13 per cent in spring wheat, 7 per cent in winter wheat, and 27 per cent in pasture. Or, briefly, the preventable leak from this one source runs well over a billion dollars a year.[2] A perfect marketing system waits on a perfect production system. Poor production means poor marketing.

So the debate goes on. Nothing is gained by scolding. Reproach is good, but it must be self-reproach. The question is, what are the preventable leaks in marketing to which the farmer, particularly the organized farmer, may well give attention?

First, we may inquire, what would constitute an ideal marketing system? An ideal market for agricultural products would exist, for instance, if exactly one fifty-second part of the yearly crop were produced each week, marketed each week, and consumed each week, and if

[1] This paper was read at the Thirty-third Annual Meeting of the American Economic Association, held in Atlantic City, December 29, 1920.

[2] *Yearbook of the United States Department of Agriculture,* 1917, p. 205.

the quantity and quality were always the same, and the demand remained constant, and the price remained the same, and if each buyer paid cash. There would then be no credit problem, no storage problem, no grading problem, and, most significant of all, no price problem. Contrast this ideal situation with the real situation. Using wheat as a typical crop, we know that the world's eaters of the wheaten loaf need, on the average, three and a half billion bushels of wheat per year. And, oddly enough, this was actually the world's crop in 1914. But the year before that and the year after that the crop was half a billion bushels larger. And one year later, in 1916, the world's crop was a billion bushels short of the 1915 crop. Weather, insect pests, plant diseases—factors beyond the control of man—control the supply and the quality. Unlike a factory, the output of the farm cannot be controlled within definite limits.

In brief, the supply of the crop fluctuates widely from year to year. The quality changes likewise. Thus the large corn crop of 1917 was of such poor quality (owing to high moisture content) that literally hundreds of millions of bushels were wholly unmerchantable.

Viewing the whole situation from the economic standpoint we may say that these farm commodities are produced for the consumers, but are not produced at the right time, or the right place, or of the right quality, or in the right quantity to meet his daily consumptive requirements. Hence our present middleman system to overcome these four maladjustments in production and consumption: (1) time, (2) place, (3) quantity, (4) quality.

Supply is never constant, as indicated above in the case of the typical crop, wheat. The actual physical supply coming to market is not constant. The psychological supply—that is, the estimate of the crop, the carryover, the amount in farmers' hands, etc.—likewise changes from day to day, from hour to hour, with new information.

Demand is never constant. Consumers buy according to their desires, whims, fancies, caprices, and tastes. Consumption is not rational and cannot be. Consumption of staples, like bread and meat, fluctuate widely from week to week, month to month, season to season. So also with all other farm products. It is a very grievous mistake to assume that supply or demand is constant, for the market teaches otherwise.

The middleman's duty is to coördinate supply and demand, overcome the four maladjustments between production and consumption. He assumes therefore two risks: (1) price fluctuations, due to changes in supply or demand; (2) perishability, particularly in fruits and vegetables. The loss here is 40 per cent in the more perishable products.

Marketing is sometimes narrowly defined as the changing of ownership of goods. This is merchandising and is only one step, the final step, in marketing. Marketing is a far more complex thing than that. Marketing begins with the production of a marketable product and continues till the product is in the consumer's home. Marketing consists of five separate but related steps: namely (1) production, (2) storage, (3) transportation, (4) credit, (5) merchandising. A "solution of the marketing problem," is, therefore, a solution of five separate problems. They are bound up together, and all must be considered if more efficiency is to be introduced into our middleman system.

II. *The Solution*

A problem once clearly stated is half solved. If, therefore, we have stated the marketing problem correctly, its solution has been suggested. The five steps in the marketing problem are now considered in turn.

1. Production.—Recent market reports dealing with the fall in the price of cotton spoke of market gluts of low-grade cotton which caused stagnation in domestic and foreign markets; the hope was expressed that the poor-grade stuff could be worked off in Europe. The hay market in the ten leading markets of the country tells the same story—market gluts of low-grade hay, and a scarcity of No. 1 hay. The first problem for the farmer therefore, is, not how to increase the crop yields, but how to produce more of the better grades, less of the poorer grades. "Limitation of output" is a two-edged sword, now being played with by cotton farmers and wheat farmers. The labor unions have already used and abused this weapon and caused public odium to attach to the term. The farmer ought to limit the output in the sense that he keep the poorer stuff at home and put the better stuff on the market. He would realize more for his crop by this legitimate form of limitation of output. This would likewise eliminate some of the preventable leaks in marketing. For by glutting the market with poor-grade stuff the farmer spoils his own market and does not benefit the consumer. Here then is the first problem in marketing, the first step is production for market.

Grading.—Grading is the second step in production. Grains and cotton are coming to be sold largely on grades. But even in these commodities the buyer at the country station is commonly too lax in adhering strictly to the federal standards. This fails to bring home to the grower the relation between low grade and low price or good grade and good price. Most farm commodities have no federal grades or state grades or any other kind of grades. Here lies the first field for coöperative marketing by farmers, that they may put on the

market a better product, graded and standardized. Most of the large, successful coöperatives in the United States (such as the California examples, the Warren County, Kentucky, Strawberry Growers, the Eastern Shore of Virginia Produce Exchange, and so on) establish their own respective grades, and stand back of this grade. In other words, they imitate manufacturers of successful articles—have a brand and guarantee its integrity. When a good article, graded and standardized, is ready for market, the marketing problem is half solved. In no other way can sales f.o.b. be made. As long as ungraded stuff is sent to the city market, just so long will it be necessary to have commission merchants handle it, and handle it, moreover, on a wide margin. The commission merchant system is a poor system made necessary by poor production. For, as said before, poor production means poor marketing. Good production means good (cheap) marketing.

Summarizing, it may be said that the first step in marketing is producing a better product and putting on the market a graded, standardized product.

2. Storage.—Since most farm crops are produced only in the summer but are consumed during a large part of the year, these crops must be stored somewhere by somebody. Here the middleman enters, to begin one of his services. Most storage is now owned wholly by middlemen, by wholesalers, retailers, or others. Control of storage gives certain strategic power. Cold storage, dry storage, warm storage, and the various other kinds of storage are being furnished to the trade to meet the requirements of the present middleman system. But if the whole marketing system is to be dealt with constructively, if farmers are to go the whole way in dealing with the marketing of their products, they must take hold of the storage question. In some sections this means construction at railway stations of local storage warehouses for potatoes, for hay, and for various other crops. Here the grading takes place. With many commodities farmers ought to go into the terminal market and own storage—enough storage at least to learn the storage business from the inside. Thus the Canadian Grain Growers, some 20,000 strong, own terminal grain warehouses and hospital elevators where they do their own drying, mixing, and conditioning, thus learning all the ways of the trade. Storage owned by farmers would tend to equalize the flow of the commodities to market. Standard warehouses, under the United States Warehouse act, furnish warehouse receipts for graded commodities which in turn are strictly first-class liquid securities in securing credit.

An interesting example of the foregoing marketing principles was recently afforded by the hearings before the House Committee on Interstate Commerce. A farmer from Minnesota showed how a scarcity

of terminal grain warehouses at the seaboard caused a fall in potato prices in Minnesota, and also a drying up of credit to the potato farmers. It was a concrete and striking example of how closely linked together these five marketing functions are. First, the scarcity of grain storage at the seaboard caused a tremendous backing up of freight cars loaded with export grain. In other words, freight cars were used for storage, not for transportation, and thus one derangement begot other derangements. Storing grain in cars caused a shortage of cars in Minnesota, particularly in those counties having one thousand or more carloads of potatoes ready for market all at once, and with freezing weather approaching or at hand. Buyers refused to buy at any price, unless cars were on hand. Banks refused to loan on such an erratic market, with danger of a freeze and a loss of the product. Here clearly was a "marketing problem" that extended from the Minnesota farm to the Atlantic seaboard, and involved each of the five steps in marketing.

Summarizing, farmers should consider storage as part of their marketing program, and in case they are not adequately served they should devise ways and means of owning and operating more of their own storage.

3. Transportation.—Most farm crops are produced many miles from the place where they are consumed. Hence, comes transportation to give them "place utility." Transportation is the most expensive link in the marketing chain from the time the product leaves the farm till it reaches the retailer's hands. Government investigations have shown that the haul of cotton or wheat from the farm to the local station, over the country road, actually costs more than the haul from the Atlantic seaboard to Liverpool. The "big leak" in transportation, in other words, is due to bad country roads. This leak will never be cured by scolding the middleman. It will be cured by coöperation in the widest sense of the term—coöperation of all the various interests, rural, urban, local, state, and national until good roads are secured for the average farmer. The question of developing rural motor express lines is one for the farmer to face and solve. Transportation by rail is so vital in its social significance as to be compared with the arteries in the human body. Problems in rail transportation, such as car shortages and rates, being interstate or national in character, are, of course, beyond the reach of any one farmer although they affect his welfare most intimately. Farmers may well, therefore, when they mobilize themselves for better marketing, devote a goodly share of their attention to this step in the marketing problem. The "voice" of the farmer may well be heard in this vital matter.

4. Credit.—Most farm crops are paid for in cash when taken by

the dealer. But in most cases it is a matter of weeks or even months before these goods are passed on to the final consumer and paid for by him. To bridge this time-gap between producer and consumer—since there is not half enough money in the country to carry the goods—credit must be furnished. As the marketing structure is now organized the "middleman" is usually the person who performs the banking function of furnishing the credit. He borrows at wholesale from city banks. While it is doubtless true that the average farmer gets all the credit he is entitled to from his local bank, yet there is a preventable leak here in the marketing process. That is, credit to move the crop can be furnished the farmers more easily, more readily, and more cheaply—provided the preceding steps have been taken—if the goods are graded; if the goods are in a warehouse, insured, and represented by a warehouse receipt. Under the federal reserve system, there is the form of credit paper known as the trade acceptance which requires the creation of no new credit machinery, but is now available for farmers individually and collectively. This form of credit should have a very large and rapid development. After developing to their full limit the trade acceptance and the warehouse receipt the farmer will find that he is in as good a position to obtain short-time credit as is any other borrower.

The farmer should be educated to the new view of credit: that it is a tool to be used by the prosperous and not a mere "debt" or badge of non-prosperity. He should be taught that somebody has to furnish credit to market his crops and must be paid for furnishing this credit; that wholesale credit is cheaper than retail credit; that modern banking machinery exists to furnish more and cheaper credit to the farmers (organized or unorganized) who have successfully taken the first two steps in marketing. When these means of credit are exhausted it will be time to talk of creating new agencies for securing credit for financing the marketing process.

5. *Merchandising.*—The last step in marketing is the actual sale of the goods, the changing of ownership. The price problem is a knotty one. But we know that supply and demand do determine general prices. At least they mark out a sort of prize ring, and within this ring the buyer and seller "fight out" the price by the bargaining process. Of course the more powerful bargainer has some advantage over the weaker. A seller pressed by poverty, ignorance, or weakness is at a disadvantage. Conversely, a seller who has knowledge, or waiting power, or skill, may have the advantage. Here is where the argument comes in for coöperative selling organizations among farmers. They are mobilized; they have power; they have a voice in marketing. Collectively they secure and use market information. Thus, the potato

farmers in the Eastern Shore of Virginia Produce Exchange spend $30,000 a year for telegrams. They are justified in doing this, for they have for sale a better product, graded, standardized. They would not be justified in this expenditure if they did not have such a product for sale. Being mobilized, 3,000 strong, they are powerful bargainers, within the limits of the law of supply and demand.

Cost of production.—A word must be said about the cost of production and its relation to selling price or value. Value (price) depends upon two factors—utility and scarcity. Cost of production governs supply, or the scarcity factor. Utility governs the demand, and has no direct relation to cost of production. Hence cost of production is not the correct basis of price, but is only one important element in it. Any price fixed by collective bargaining, collective selling, or otherwise, must actually reflect supply and demand, or it will not stay fixed. For it will lead either to a surplus (which the consumer refuses to take except at price concessions) or a shortage (leading the consumers to bid up the price).

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